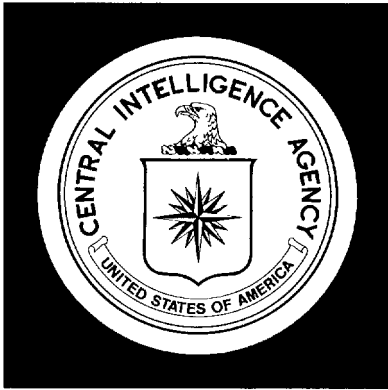


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INTELLIGENCE

Central Intelligence Bulletin

Secret

No. 41

9 March 1973

State Department review completed

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Approved For Release 2004/01/15 : CIA-RDP79T00975A024000020001-2

Approved For Release 2004/01/15 : CIA-RDP79T00975A024000020001-2

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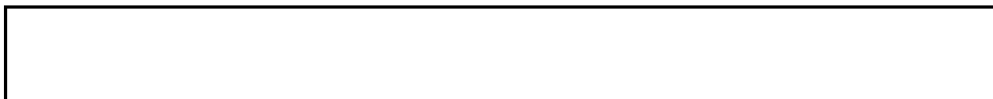
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FRANCE: The government should be able to retain control of the National Assembly in the final vote on Sunday.

Projections based on the first round of the legislative elections and a week of inter-party bargaining indicate that the government either can win a thin majority on its own or can rule with the support of the Centrist Reform Movement. The latest district-by-district analysis shows the government coalition leading the left by about 50 seats--the margin it won in 1967--in districts where stable voting patterns allow predictions. A crucial number of races--about 75--are too close to call.

Working to the government's advantage is the tacit agreement reached with the Reformers on mutual withdrawals in districts where continued rivalry would split the moderate vote and permit a leftist victory. Through such bargains the Reformers hope to ensure themselves the minimum 30 seats required to have the full status and privileges of a formal parliamentary group.

Reformer voters are less disciplined than those on the right and left, however, and some may disregard the plea of Reform chief Jean Lecanuet to throw their support to the government to keep a leftist out. Moreover, because the goal of the Reform Movement faction led by Jean-Jacques Servan-Schreiber was to defeat the government coalition, this group may be reluctant to support the Gaullists and their allies.

In all but a handful of districts, the parties in the Communist - Socialist - Left Radical alliance have stuck to their agreement to withdraw in favor of the leftist who received the most votes on the

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first round. The left, which has branded Lecanuet a "shameful convert," still hopes to pick up Reform votes by stressing that those who desire social change and progress can now attain it only by switching to the left.

The votes of the uncommitted and centrist group--about 30 percent of the electorate--are critical. Recent polls show these voters will flock in large numbers to a government candidate facing a Communist, but would split evenly if the opponent were a Socialist. This is particularly important because there will be a straight contest between a government or Reformer candidate and a leftist in 310 districts. In almost half of these, the left is represented by a Communist. [REDACTED]

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INTERNATIONAL MONETARY DEVELOPMENTS: At the meeting today in Paris of the expanded Group of Ten, the EC will call for a more active US role in defense of the currency realignment of 12 February. EC efforts to agree to a joint float have been stalemated by UK and Italian demands that are unacceptable to West Germany and probably to the other member countries as well.

The EC Council of Ministers delayed discussion of a joint float in order to consider proposals to present to the US. Community members generally believe the realignment of 12 February established an acceptable exchange rate pattern whose defense requires active US participation. The proposals to be presented will probably include a request that Washington support the dollar in foreign exchange trading, raise US interest rates, and take steps to increase the repatriation of earnings from US multinational companies. The Europeans may also raise the question of official gold sales in the free market as a means of moderating speculation.

There have been no indications of any concessions the EC might offer the US for accepting these requests. Community members are not optimistic, however, that an agreement with the US can be reached and they are consequently still looking for a community solution to the impasse. West German representatives have indicated that UK conditions for a joint float are unacceptable. The EC Commission supports a joint float but reportedly is perplexed by a shift away from a joint float in official French public statements.

The Japanese, even though anxious to see the monetary crisis resolved, are concerned that Tokyo is being dragged into the international negotiations as a full-fledged participant when it wishes to take part only as an observer. Neither the Japanese Finance Minister nor the Governor of the Bank of Japan

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Expect the Paris meeting will resolve the crisis. In their view, the major topic should be measures to combat dollar speculation. There are also reports that Japan will call for dollar convertibility into gold.

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USSR-US: The Soviets will see Secretary Shultz' visit to Moscow next week as a further sign of Washington's interest in improving economic ties, and they probably hope that he will offer some new information on the prospects of their obtaining most favored nation (MFN) treatment.

The Soviets have taken the line that an improvement in relations depends to a large extent on whether Congress grants MFN treatment to the USSR. They have criticized efforts in the US to link the issue to Moscow's willingness to rescind the emigration tax, and they have said that they have already "liberalized" their emigration policy in deference to US views.

The MFN issue has assumed a political importance for the Soviets that outweighs the purely economic benefits they may eventually receive if favorable legislation is, in fact, enacted. Moscow wants MFN treatment because it symbolizes the political equality the Soviets believe they won at the May 1972 summit. They know that MFN is unnecessary in pursuing the projects that interest them most, such as joint development of Siberian natural resources. On the latter score, the Soviets are likely to use the Secretary's visit to make further probes of the effects of the energy crisis on US willingness to assist them in developing the USSR's natural gas resources.

Despite the optimistic picture the Soviets are likely to paint regarding the vast potential for future economic ties, the level of US-Soviet trade over the next few years will probably not exceed the record high expected for 1973. A sizable US surplus is likely to be maintained over the next few years because of a continuing Soviet demand for grain, equipment for the Kama River truck plant, and other industrial projects. The major long-term Soviet hope for redressing the imbalance

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is to conclude some of the large natural resource development deals now under discussion. In the near term, however, the Soviets probably will rely on credits and possibly gold sales to finance their deficit.

In 1972, total US-Soviet trade reached a record \$642 million; US exports of \$547 million accounted for most of the increase. Grain sales alone accounted for about two thirds of US exports. Most of Moscow's sales were concentrated among platinum group metals, chrome ore, and diamonds. From 1969 to 1971, US-Soviet trade ranged between \$160 million and \$230 million per year with the Soviet deficit for those years totaling roughly \$200 million.

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ARGENTINA: The results of the election on Sunday are likely to be inconclusive and tensions will increase as maneuvering for a runoff in April gets under way.

The election will mark the culmination of efforts to return Argentina to civilian rule begun by President Lanusse when he seized power in March 1971. Lanusse did not, however, envision giving the Peronists the opportunity they now have to regain power. He has had second thoughts about the whole process, but the majority of high-ranking military officers has resisted his efforts to have the Peronists proscribed or the elections postponed.

The Peronists themselves have avoided provocative actions in the last days of the campaign to lessen the chance of a last minute military intervention. Peron has told his followers to turn out to vote at all costs, but he has also instructed youth leaders, in a taped broadcast, to prepare for "massive and violent protests" if the election is a "trap." His definition of a trap appears to be any situation in which the Peronists do not win.

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The Peronist candidate, Hector Campora, is the only one of nine presidential candidates with even an outside chance of winning a majority, thus negating the need for a runoff. He is more likely, however, to finish with between 35 and 45 percent of the vote, with Ricardo Balbin of the Radicals coming in second, some 10 to 15 points behind.

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Should Campora finish with less than 40 percent of the vote, Balbin would be in a good position to rally anti-Peronists and pull out a victory in the second round in April. A strong showing of better than 40 percent, however, would put the Peronists in the driver's seat and thus increase the chances that the military might ultimately intervene to prevent their long-time foes from regaining power.

Foreign and domestic policies probably would not be drastically changed under either Campora or Balbin. Both candidates, however, have advocated some increase in state control of the economy and a more "independent" foreign policy, including restoration of relations with Cuba. [REDACTED]

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BANGLADESH: The ruling Awami League is likely to read its landslide election victory as a mandate to continue the government's present policies.

Early returns indicate that the League won more than 290 of 300 parliamentary seats. The government's domestic policy will remain focused on famine prevention and economic reconstruction within a socialist framework. In foreign affairs, the government will remain very friendly toward India and the Soviet Union, and it probably will continue to refrain from strong criticism of the US, its leading source of economic aid.

Dacca also will continue to seek better relations with Peking, but the Chinese are likely to remain aloof until there has been some progress toward resolving the impasse over the 90,000 Pakistani war prisoners being held by India. With the elections out of the way, Prime Minister Mujib would have less reason to worry that a shift to a more flexible policy on the prisoners might have adverse domestic political consequences. Some well-informed Indians believe New Delhi may urge Mujib to be more forthcoming on this emotional issue.

Up to now, however, Mujib has insisted that Pakistan must recognize Bangladesh before the prisoners could be released. He has also insisted on Bangladesh's right to try at least a token number of the prisoners on war crimes charges. Although a change in these positions would be a major concession in view of the deep animosity toward Pakistan that still prevails, Mujib now appears to have greater freedom to maneuver if he should decide to alter his stance.

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JAPAN: Agreement among the opposition parties to cooperate in the Diet could further weaken Prime Minister Tanaka's ability to deal effectively with major issues.

The arrangement is fragile because no fundamental differences have been resolved. Opposition quarreling, particularly between the Socialists and Communists, has been especially bitter since December and may have benefited the ruling Liberal Democrats in recent local elections. Nevertheless, the meeting on 7 March at which an alliance was formed was the first time in six years that the leaders of the four opposition parties sat down together.

The agreement covers only cooperation within the Diet, including yen revaluation and demands for measures to curb inflation and commodity and land speculation--areas where Tanaka is already under heavy criticism. Controversial national railway and health insurance legislation also are to be opposed jointly. Even though Tanaka's party has an absolute majority in the Diet, Japanese governments do not usually force a vote unless at least one opposition party agrees to end debate.

In addition to the agreement on cooperation in the Diet, the meetings reflected a new willingness of the Japan Socialist Party and the Komeito to consider working with the Communists in local elections and in demonstrations outside of the Diet. The Democratic Socialists still refuse to cooperate with the Communists except on specific Diet issues. Komeito's shift to the left is already noticeable at the local level. With new support from Komeito, the Socialist governor of Tokyo now controls a clear majority in the city's Metropolitan Assembly.

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The opposition alliance may be able to do little more than disrupt and delay Diet proceedings, but these tactics would further compound Tanaka's parliamentary problems. He is already being sniped at behind the scenes by members of his own party. At the same time, the alliance is made up of such diverse political philosophies that Tanaka may be able to regain political ground if he can successfully capitalize on opposition differences. [REDACTED]

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ICELAND-UK: The coast guard, released from rescue operations related to the Heimaey Island eruption, has resumed its harassment of British trawlers fishing within Iceland's self-declared 50-mile limit.

Eight trawl wire-cutting incidents have been reported since 5 March. Some of the trawlers, when threatened, have attempted to ram the cutters. London has protested the harassment and Reykjavik has countered with accusations of "illegal" fishing. The incidents have clouded prospects for early resumption of negotiations between Iceland and the UK.

West German trawlers have not been involved in the recent incidents at sea. Icelandic Foreign Minister Agustsson this week said his government is willing to hold discussions with Bonn. London and Bonn last year had filed joint protests against Iceland with the International Court of Justice. By acting tough toward the British and conciliatory toward the Germans, Iceland may be trying to divide them.

Meanwhile, Reykjavik is asking Washington for the loan or gift of an old US coast guard cutter, claiming that it needs one for standby duty at Heimaey Island.

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MALAGASY REPUBLIC: General Ramanantsoa is clamping down on supporters of former president Tsiranana.

The government has arrested some 40 persons, including two former ministers and several former senators, for investigation concerning their role in recent disturbances in several coastal towns. The government suspects they were inciting coastal tribes to demonstrate against the Merina-dominated government. The most prominent persons arrested are from Tsiranana's geographic area and ethnic group.

One of the former ministers is also the mayor of a town where coastals last week demonstrated in favor of maintaining close ties to France and attempted to set fire to the local prison. Similar pro-French and antigovernment demonstrations occurred in three other towns, including Diego Suarez, the headquarters of French military forces in the Indian Ocean. At Diego Suarez, coastals set fire to the local prison, the courthouse, and several shops owned by Merina.

The arrests provide the first real evidence that the government is prepared to put an end to attempts by ousted coastal politicians to exploit tribal animosities. These activities have continued since Tsiranana's ouster last May, and it has become increasingly clear that Tsiranana's still active political followers played a large role in organizing the recent demonstrations.

Although Ramanantsoa's current clampdown has been against the coastals, the Merina have done their part to fuel the current troubles. Coastal fear of renewed Merina domination has been exacerbated by strident articles in the Merina-dominated

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press and radio that label coastals as traitors for opposing the imposition of the Malagasy language, which is essentially Merina, on the country's educational system. The press also denounced as disloyal coastal opposition to the expulsion of French business interests, which provide jobs for many urban coastals.

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RWANDA: A Hutu campaign to force a cutback on the Tutsi minority's disproportionate share of education and private employment appears to be running out of steam.

Not wishing to risk a tribal slaughter like the one that rocked neighboring Burundi last summer, the government moved to ensure order after a week of violence. Until disorder broke out, the campaign apparently had at least the acquiescence of the government.

Foreign observers estimate that 150 persons were killed and several thousand left homeless. By comparison, Burundi's violence resulted in perhaps as many as 200,000 killed. The government must still face up to the fact that Rwanda's Hutu majority--largely unskilled--deeply resents the fact that a substantial portion of the country's limited educational facilities and employment opportunities are being taken by the aggressive Tutsi minority.

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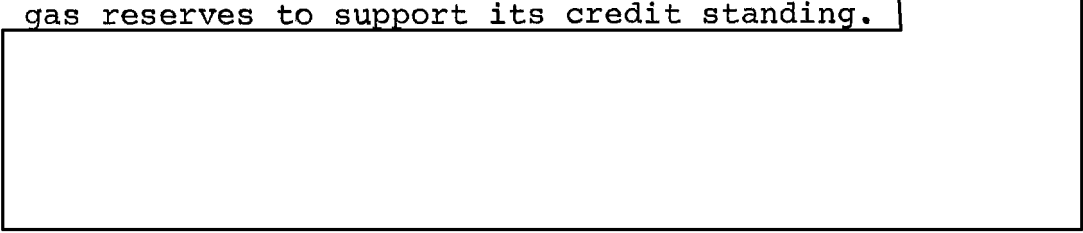
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ALGERIA: As a result of difficulties in negotiations with the US Export-Import (EXIM) Bank regarding financing for a gas liquefaction plant intended to supply a US gas firm, Algeria sought and has secured assurances of loans totaling almost \$500 million. These loans are being obtained from foreign commercial banks, mostly US, on favorable terms. Although the major difficulties with the EXIM Bank apparently are being resolved, Algiers will use some of the commercial loans to finance construction of natural gas installations and other development projects. Algeria borrows several hundred million dollars annually--mostly on commercial terms--to finance its capital-intensive development plans, relying on large oil and gas reserves to support its credit standing.



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